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RUEHBS/AMEMBASSY BRUSSELS 6509  
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RUEHLO/AMEMBASSY LONDON 6703  
RUEHMD/AMEMBASSY MADRID 2713  
RUEHMO/AMEMBASSY MOSCOW 5974  
RUEHNY/AMEMBASSY OSLO 1521  
RUEHRO/AMEMBASSY ROME 8603  
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RUEHTC/AMEMBASSY THE HAGUE 2888  
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RUEHBUL/AMEMBASSY KABUL 0542  
RUEHLU/AMEMBASSY LUANDA 0882  
RUEHPL/AMEMBASSY PORT LOUIS 0908  
RUEHLC/AMEMBASSY LIBREVILLE 1253  
RUEHWN/AMEMBASSY BRIDGETOWN 0289  
RUEHGB/AMEMBASSY BAGHDAD 0666  
RUEHAM/AMEMBASSY AMMAN 1016  
RUEHNV/AMEMBASSY MONROVIA 7293  
RUEHBW/AMEMBASSY BELGRADE 0862  
RUEHFN/AMEMBASSY FREETOWN 0484

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PASS EXIM FOR CLAIMS -- EDELARIVA  
PASS USDA FOR CCC -- ALEUNG/DERICKSON/KCHADWICK  
PASS USAID FOR CLAIMS  
PASS DOD FOR DSCS -- PBERG

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SUBJECT: PARIS CLUB - SEPTEMBER 2007 TOUR D'HORIZON

¶1. (SBU) Summary: At the Paris Club's September 12 Tour d'Horizon, creditors welcomed in principle Jordan's proposal to buy back debt and generally supported the Secretariat's assessment of a 6-8 percent market discount. In a significant move, the Secretariat and creditors agreed with the U.S. position that the comparability of treatment clause needs to be adapted for early repayment agreements to preserve the debtor's right to make subsequent early repayment offers. Russia said it had no news to report on its bilateral agreement with Iraq. The Netherlands postponed formal replies to the IMF's request for financing assurances for Liberia's IMF program, pending a September 14 IMF Board discussion and citing concerns that Liberia was not negotiating in good faith with its private creditors. In a special presentation on so-called "vulture funds," UK attorney Janet Legrand briefed creditors on her experience defending Zambia (a HIPC) against Donegal International's aggressive litigation tactics. Paris Club creditors also discussed relations with Angola, Antigua and Barbuda, Argentina, Central African Republic, Congo-Brazzaville, Ecuador, Gabon, Grenada, and Serbia and Montenegro, and a UK proposal on the monetization of Paris Club claims. End Summary.

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Angola

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¶2. (U) The Secretariat reported that Paris Club Chairman Musca had spoken with Angolan Vice Finance Minister de Moraes (no relation to Finance Minister de Moraes) and reiterated that creditors were willing to show some flexibility on late interest. De Moraes said his government had some questions about the late interest data provided by the Secretariat. Sweden and the Netherlands still reported some overpayments. The Secretariat informed creditors that further data reconciliation work was necessary, but that the situation was evolving in the right direction.

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Antigua and Barbuda  
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¶3. (U) The Secretariat circulated a draft letter urging the authorities to clear their arrears as soon as possible and stressing the importance of equity of treatment among Paris Club creditors and the need for an IMF program if the country seeks a Paris Club debt treatment. Antigua and Barbuda owes the Paris Club \$100 million, of which nearly half is in arrears. The U.S. is the third largest creditor with \$17 million in claims. The IMF said the authorities have hired advisers to look into restructuring external debt, but have no interest in an IMF program. The Secretariat said creditors could decide at a later stage that the country has no prospect of relations with the IMF and Paris Club, in which case the next step would be to consider terms of reference that would establish a common framework for bilateral negotiations.

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Argentina  
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¶4. (U) The Secretariat expressed hope that new Argentine Economy Minister Peirano's recent letter signifies a new phase in the effort to normalize financial relations with the Paris Club. In the letter, Peirano announced that Argentina's Secretariat of Finance will be strengthened through the creation of a working group headed by Javier Augusto Alvaredo, who will be the point person on Paris Club issues. The Secretariat also noted recent comments from Dominique Strauss-Kahn to journalists that Argentina should either tap its \$43 billion in official reserves to pay its Paris Club debt, or reach an agreement with the IMF and seek a restructuring in the Paris Club.

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Central African Republic  
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¶5. (U) The IMF said CAR's performance on its macroeconomic reform program under the IMF's Poverty Reduction and Growth Facility has been satisfactory. On September 28 and 29, respectively, the IMF and World Bank's Executive Boards are scheduled to discuss CAR reaching "Decision Point" under the Enhanced Heavily Indebted Poor Countries Initiative (HIPC). An October 2007 pledging conference is expected to take place in Brussels. The Fund calculates that all of CAR's creditors will need to reduce their claims by 68 percent -- the common reduction factor -- to bring CAR's debt to sustainable levels. Germany asked about CAR's earlier plans for a \$92 million bond issue. The Fund said the authorities decided to drop the idea after staff conveyed their concerns.

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Congo-Brazzaville  
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¶6. (U) The IMF said discussions with the authorities on a new Poverty Reduction and Growth Facility (PRGF) program could resume by the end of the year, noting that a staff-monitored program was approved in June 2007 and an IMF staff mission was currently underway. Italy was concerned that new PRC lending was posing a threat to debt sustainability. The IMF said the Congolese parliament ratified a loan in 2006 for the purchase of three Chinese airplanes. The loan was on non-concessional terms and required a waiver at the time of the second review of the PRGF. The IMF did not have any information about any new loans that may have been contracted with China but agreed to research the matter further and

provide an update at the October 2007 Paris Club meeting.

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Ecuador  
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¶17. (U) The Paris Club expressed no interest in Ecuador's proposal, sent on a bilateral basis to some creditors, to carry out debt swaps in exchange for a commitment not to develop its oil fields. (The GOE estimates that the oil fields could potentially yield \$700 million per annum, and it wants donors to compensate Ecuador for at least 50 percent of that amount.) The Secretariat opined that the proposal was consistent with the debt swap provisions of Ecuador's prior Paris Club agreements, noting that creditors would decide bilaterally about individual participation. Italy questioned whether it was appropriate to discuss creditors' interest at this juncture since Ecuador had not sent its proposal to the Paris Club.

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Gabon  
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¶18. (U) Regarding Gabon's proposed buyback agreed in July 2007, the IMF said it did not have any information at this time about the extent to which recent financial market turbulence may have affected Gabon's plans to borrow money in regional and international markets to finance the partial buyback, at a discount, of its Paris Club debt. The Secretariat asked the IMF to follow up on this question during the October Paris Club meeting. A Fund mission is headed to Libreville at the end of September. Brazil reported receiving a letter from the authorities asking Brazil to participate in the buyback and provide additional relief through debt swaps, similar to what France provided, in order to increase the overall discount from 15 percent to 20 percent. The Netherlands and Italy said they had received similar letters but had no intention of engaging in debt swaps. The UK had not received such a letter but indicated it will participate in the discounted buyback operation. The U.S. and Japan reported arrears (\$500,000 and 21 million Japanese yen, respectively) that they expect to be cleared before the buyback takes place.

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Grenada  
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¶19. (U) The Secretariat circulated a draft letter to the authorities informing them that the second phase of Grenada's 2006 Paris Club agreement, covering maturities falling due in calendar year 2007, has not entered into force. In the letter, creditors urge the GOG to make the necessary reform efforts to allow the IMF to complete its first review of Grenada's program under the Poverty Reduction and Growth Facility, which is the condition for resuming debt relief.

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Iraq  
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¶10. (SBU) Despite some limited expectations prior to the plenary session that Russia would announce the imminent conclusion of the long-delayed agreement, the Russian delegation said it had no news to report on its bilateral agreement with Iraq. Russia gave no further explanation, other than to restate the "cautious optimism" Deputy Finance Minister Storchak expressed, at the August 6 signing of the Russia-Afghanistan bilateral debt agreement, that the agreement with Iraq could be concluded by the end of the year.

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Jordan  
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¶11. (SBU) The U.S. delegation congratulated Jordan on its strong economic reform initiatives and wished it continued success in strengthening its economy through sound policies. In that context, the U.S. expressed strong support for Jordan's efforts to improve its debt management. The U.S. noted Jordan's plans to use privatization proceeds and favorable market conditions to retire and refinance some of its debt to smooth payment streams and reduce

exchange rate risks, and encouraged other creditors to participate in Jordan's proposal to buy back its Paris Club debt at a market-based discount, while noting we had legal constraints on participation. The IMF said Jordan's macroeconomic performance remains strong and expressed support for the buyback operation, noting that current data on privatization proceeds were consistent with Jordan's claim that \$1 billion, combined with as yet unspecified new grants and concessional loans from Arab Gulf countries, would be available to finance the buyback.

¶12. (SBU) The Secretariat explained its methodology for estimating a market discount on Jordan's debt and called for the GOJ to provide a formal proposal of the discount it seeks. Many creditors welcomed Jordan's proposal in principle and agreed with the Secretariat's analysis that a 6-8 percent discount would be appropriate. Germany and the UK said they had met with Jordan's financial advisers, who disputed the Secretariat's methodology for determining the appropriate market spread. The advisers said that other circumstances needed to be taken into account, including interest rates of 10-11 percent on domestic debt, which would lead to a larger discount.

¶13. (SBU) The announced positions of the five largest creditors were as follows:

-- The U.S. and Japan expressed support for the buyback, but indicated they could not accept discounted buybacks for legal reasons.

-- France said it was inclined to participate, depending on the price.

-- The UK said it was almost certain to participate if the discount was between 6-8 percent and might have some flexibility beyond that range.

-- Germany said it was inclined to participate, depending on the price.

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Liberia  
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¶15. (SBU) The Netherlands delayed formal responses to the IMF's request for financing assurances, pending the September 14 IMF Executive Board discussion and, in particular, citing concerns that Liberia was not negotiating in good faith with its private creditors. The Netherlands argued that the longer Liberia waits to negotiate with its private creditors, the more likely those creditors will free ride on Paris Club debt relief and hold out for better terms. The IMF said the Liberian finance minister had, in fact, met with private creditors in New York, and that the talks were constructive. The World Bank added that its International Development Association (IDA) had begun the process of preparing a buyback of Liberia's debt to commercial creditors under the IDA's Debt Reduction Facility. The U.S., Denmark, Germany, Italy, Sweden, and the UK all said they were prepared to provide financing assurances immediately. Japan said it would go along with the consensus but would prefer to wait for the outcome of the September 14 discussion on financing modalities for arrears clearance. The Secretariat agreed to use a written procedure to obtain financing

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assurances after the discussion. (Note: At the September 14 IMF meeting, Executive Directors approved the G-8 arrears clearance plan, although approximately \$140 million remain to be pledged to fully finance the operation. End Note.)

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Serbia and Montenegro  
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¶16. (U) Japan reported that it had reached a compromise with Serbia and Montenegro to apportion the debt between the two countries in a way that is consistent with the debtor/guarantor principle. Germany said it had also concluded an agreement with the authorities in accordance with the debtor/guarantor principle. Encouraged by these successes, the Netherlands, Sweden, and Switzerland said they were

willing to hold off on sending a letter to the newly appointed Serbian finance minister. The Paris Club will review the situation in November.

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Comparability of Treatment in Buyback Agreements  
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¶17. (SBU) The U.S. produced significant movement on the issue of comparability of treatment. Following circulation of the U.S. working paper, the Secretariat and a surprising number of creditors (Belgium, Canada, Japan, Netherlands, Germany, and Russia) supported the U.S. position that the COT clause needs to be adapted for early repayment agreements to preserve the debtor's right to make subsequent early repayment offers. (Japan circulated a separate working paper based largely on the U.S.' ideas.) Canada and Spain proposed a compromise solution whereby those creditors that participate in an early repayment offer at market value would receive compensation if the debtor proposed a subsequent early repayment offer above market value. The U.S. and Canada asserted that compensation should be contemplated only during a limited length of time as determined on a case-by-case basis during the initial buyback negotiation. Details still need to be worked out regarding the time period during which the debtor would be obligated to provide compensation. This movement toward a compromise solution represented a positive development that may allow the U.S. to sign buyback agreements in the future.

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Methodological Discussion: Litigating Creditors  
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¶18. (U) Janet Legrand, an attorney from the law firm of DLA Piper, provided a detailed account of the highly publicized case of Donegal International Limited vs. the Republic of Zambia, in which Donegal attempted to sue Zambia for \$55 million based on a claim purchased from Romania for \$3.2 million. Legrand's presentation shed light on the secretive activities of so-called "vulture funds" against HIPC countries and offered several insights for Paris Club creditors interested in addressing this problem.

¶19. (U) Strengthen Capacity Building: Legrand said there were many steps the Zambian authorities could have taken to help defend themselves, and that Zambia's early legal missteps, such as waiving its sovereign immunity and accepting the British Virgin Islands' jurisdiction over Donegal's claims, severely weakened Zambia's position. Since internal corruption usually plays a significant role in vulture fund cases, according to Legrand, measures to promote transparency and good governance can be part of the solution. Highlighting her cooperation with the African Development Bank, Legrand noted that seminars to train finance ministers and attorneys general would be useful. Funding travel for such technical assistance could be one way for donors to address the threat of litigating creditors.

¶20. (U) Expert Testimony can be Helpful: In the case of Zambia, where there were questions surrounding the legitimacy of the debt, expert testimony on the HIPC initiative by a former IMF general counsel proved very damaging to Donegal's case that Zambia was simply unwilling to pay its debts. However, Legrand said expert testimony on the HIPC initiative would probably have no impact in a situation where the debt is recognized to be legitimate.

¶21. (U) "Vulture Funds" Dislike Publicity: Legrand underscored how the attention of media and non-governmental organizations was an effective weapon in the case of Zambia, since Donegal did not want to draw public scrutiny of its activities. Distinguishing a "Vulture Fund" from a legitimate litigating creditor, however, can be difficult. Donegal was an extreme case. Legrand said there are many other organizations that seek to make a financial return by buying and selling distressed debt, but whose objective is not to bleed a country dry.

¶22. (U) Legrand declined to comment on the scope of problem of litigating creditors against HIPC countries, saying she didn't have hard numbers. But she warned that there was a potential for the problem to grow given the magnitude of the potential financial returns. Despite Donegal's failure to collect the full \$55 million

sought, Zambia is paying Donegal on a judgment of \$15.7 million for claims Donegal originally purchased for \$3.2 million.

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Methodological Discussion:  
Monetization of Paris Club Claims  
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23.(U) The UK's Export Credits Guarantee Department (ECGD) presented a proposal it is studying to improve the management of a limited portion of its non-HIPC Paris Club debt through monetization. The ECGD arrangement would transfer to a private commercial bank a proportion of the cash flows it receives from the debtor country. In exchange, ECGD would conclude a sub-participation agreement with the private bank and receive a discounted cash settlement. ECGD would remain the lender of record (consistent with Paris Club principles) and would retain control over the implementation and any renegotiation of the debt agreements in the Paris Club. Provided that HIPC claims were excluded, the Secretariat expressed general support for the UK's concept of monetization, noting that creditors must adhere to the guidelines of the 1999 Working Paper on securitization of Paris Club claims. Unlike securitization, however, monetization would be a private transaction that would not involve the issuance of any notes or paper. The Secretariat and Japan expressed concern that, under the scheme described, the sub-participant could influence the UK's positions at the Paris Club concerning debt relief. The ECGD asserted that the sub-participant would bear all risks (the price of which were reflected in the discounted cash settlement) associated with the particular repayment stream the bank took over, including the risk of a future Paris Club action.

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